



Third Taxing District

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THIRD TAXING DISTRICT OF THE CITY OF NORWALK, COMMISSION
MEETING, MONDAY **July 19, 2004**, AT THE EAST NORWALK IMPROVEMENT
ASSOCIATION LIBRARY, VAN ZANT STREET, EAST NORWALK,
CONNECTICUT AT 7:00 P.M.

1. Public Comment
2. Approval of the minutes from June 14, 2004 (Attachment 1)
3. Proposed insurance for retired personnel
4. General Manager's Report (Attachment 2)
5. Generation project update and actions – Source of funds (Attachment 3)
6. Tree planting at Calf Pasture Beach
7. Write-off of past due accounts
8. Ninetieth anniversary pole banners
9. Financial projection for 04-05 (Attachment 4)
10. Audit billing for 2001 (Attachment 5)
11. Computer training (Attachment 6)
12. Adjournment

Communications:

District Commissioners

David L. Brown 203-866-8099
Stephen M. Feinstein 203-866-9271
Paul S. Coggin 203-866-1551

Chairman
Commissioner
Commissioner

George E. Leary 203-866-9271
John Stoops 203-854-5105

General Manager
Treasurer

**CITY OF NORWALK
THIRD TAXING DISTRICT COMMISSION
SPECIAL MEETING
May 14, 2004**

ATTENDANCE: David Brown, Chairman; Stephen Feinstein.

STAFF: George Leary, General Manager

OTHERS: Lawrence P. Dennin, Esq.

Chairman Brown called the meeting to order at 3:00 PM.

PUBLIC COMMENT

There was no one present from the public.

ACTIONS NECESSARY TO ADVANCE THE CITY LOAD SHED PROJECT

Attorney Dennin reviewed a revised contract to operate certain City-owned emergency generators, which was just received from City Attorney Diane Beltz-Jacobson. After discussion and consultation with Maurice Scully of CMEEC a return call was made to Ms. Jacobson to negotiate further changes to the agreement. Following discussions between Attorneys Dennin and Jacobson an agreement was reached on the language of the contract. A subsequent call was made to Attorney Sussler of CMEEC to review the final changes.

- ** COMMISSIONER FEINSTEIN MOVED TO APPROVE THE CONTRACT BETWEEN THE CITY AND THIRD TAXING DISTRICT AS AMMENDED WITH INPUT FROM CMEEC COUNSEL DATED MAY 14, 2004 AND TO AUTHORIZE CHAIRMAN BROWN TO EXECUTE THIS CONTRACT.**
- ** COMMISSIONER BROWN SECONDED THE MOTION.**
- ** MOTION PASSED UNANIMOUSLY.**

FINAL

There was a review of the draft contract between the District and CMEEC for operation of the City's emergency generators. Attorney Dennin explained that changes to this contract were needed to bring it into conformance with the agreement with the City that had just been approved.

**** COMMISSIONER FEINSTEIN MOVED TO APPROVE THE CONTRACT BETWEEN CMEEC AND THE THIRD TAXING DISTRICT SUBSTANTIALLY IN THE FORM OF THE DRAFT DATED MAY 4, 2004, SUBJECT TO REVIEW BY COUNSEL AND TO AUTHORIZE THE CHAIRMAN TO SIGN THIS CONTRACT.**

**** CHAIRMAN BROWN SECONDED THE MOTION.**

**** MOTION PASSED UNANIMOUSLY.**

**** COMMISSIONER FEINSTEIN MOVED TO ADJOURN.**

**** COMMISSIONER BROWN SECONDED THE MOTION.**

**** MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 4:40 PM.

Respectfully submitted,

George E Leary
Secretary Pro Tem.

DRAFT

**THIRD TAXING DISTRICT
JUNE 30, 2004
SPECIAL MEETING**

ATTENDANCE: David Brown, Chairman; Paul Coggin (6:30 pm); Stephen Feinstein.

STAFF: George Leary, General Manager

OTHERS:

Mr. Brown called the meeting to order at 6:00 pm.

PUBLIC COMMENT

No members of the public were present.

**USE OF CONSTITUTION PARK FOR COLOMBIAN INDEPENDENCE
CELEBRATION**

- ** MR. BROWN MOVED TO AUTHORIZE THE COMMITTEE “FESTIVAL DE INDEPENDENCIA DE COLOMBIA” TO USE CONSTITUTION PARK AND BAND STAND PER THEIR REQUEST PROVIDED THEY MEET OUR POLICY REQUIREMENTS.**
- ** MR. FEINSTEIN SECONDED.**
- ** MOTION PASSED WITH MESSERS. BROWN AND FEINSTEIN VOTING IN FAVOR.**

PURCHASE OF MATERIALS AND SUPPLIES

- ** MR. FEINSTEIN MOVED TO ACCEPT THE RECOMMENDATION OF THE GENERAL MANAGER AND AWARD A CONTRACT FOR 600V WIRE TO WESCO, THE LOW BIDDER, AT A BASE COST OF \$4,216.80.**
- ** MR. BROWN SECONDED.**
- ** MOTION PASSED WITH MESSERS. BROWN AND FEINSTEIN VOTING IN FAVOR.**

- ** MR. FEINSTEIN MOVED TO ACCEPT THE RECOMMENDATION OF THE GENERAL MANAGER AND AWARD A CONTRACT FOR THREE 100 KVA TRANSFORMERS TO WESCO, BASED ON THEIR DELIVERY, AT A COST OF \$3,780.**
- ** MR. BROWN SECONDED.**

DRAFT

**** MOTION PASSED WITH MESSERS. BROWN AND FEINSTEIN VOTING IN FAVOR.**

EXECUTIVE SESSION

**** MR. FEINSTEIN MOVED TO GO INTO EXECUTIVE SESSION, AT THE GENERAL MANAGER'S REQUEST, FOR THE GENERAL MANAGER'S REVIEW AT 6:10 PM.**

**** MR. BROWN SECONDED.**

**** MOTION PASSED WITH MESSERS. BROWN AND FEINSTEIN VOTING IN FAVOR.**

Commissioners Brown, Feinstein and Mr. Leary went into executive session at 6:10 PM.

Mr. Coggin joined the meeting at 6:30 PM.

They reconvened into public session at 7:35 pm. The Chairman announced that there was no action taken.

ADJOURNMENT

**** MR. FEINSTEIN MOVED TO ADJOURN.**

**** MR. BROWN SECONDED.**

**** MOTION PASSED UNANIMOUSLY.**

Meeting was adjourned at 7:35 pm.

Respectfully submitted,

George E. Leary
Secretary pro tem

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G E Leary

Date: July 1, 2004

Subject: General Manager's Report

Operations –

- As of June 30 the field work for the 2003 audit was proceeding smoothly and on schedule.
- One of our two Senior Meter Technicians remains on disability following foot surgery. His return date is uncertain but is not expected to be before July 1st. In the interim the meter reading is taking much longer than expected each month. This has resulted in collections being late and has required that personnel from the line crew help doing meter work.
- Our meter truck had a minor collision with a parked car on June 23rd. There were no injuries and our insurance agent has been notified.

Billing System – We have advance warning that the eighteen-month notice is being sent terminating support on our billing system. This means that we will have to replace our system by the end of 2005. As we have previously discussed, we knew that the support would be ending and have done some preliminary work in assessing the available alternatives. There are several attractive options including upgrading with the current provider. We have also budgeted for this expense at \$52,000 for FY 04-05. The exact timing of this project will depend on our work schedule and the schedule of the new system provider.

Norden Generation – The project is moving quickly with a possible on-line date of August 1st. The Siting Council made their site visit on June 4th, which went very well. The Siting Council, on June 23rd, approved our petition subject to complying with reasonable zoning requirements. The Zoning Board meeting scheduled for June 10th was canceled. The date for zoning approval is uncertain, we are hopeful that this approval will be granted July 21st following the public hearing. The NU response on interconnection requirements appears to be proceeding without major problems but is now overdue.

Both parties have signed the Norden lease.

Insurance Coverage for Retirees – Jim Murphy of Benefit Planning will be at the July 19th meeting to explain a proposal to change the coverage being offered to our retired personnel. We have been self insured for prescription drugs resulting in ever mounting costs in this area. Jim feels that a different health insurance plan that offers more comprehensive drug coverage will save the TTD money in the coming years.

Fuel Tanks – A representative from the DEP arrived on June 29th to inspect our gasoline and diesel fuel tanks. Their records indicate that these tanks were installed in 1975. We have no records to indicate otherwise, but our staff thinks that fiberglass tanks were installed more recently. We will check City records for verification of the tanks' status.

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G. E. Leary

Date: June 21, 2004

Subject: Funds for Norden Generation Project (Rev 6/22/04)

At the April 26th Commission meeting it was recommended that funds to finance the Norden Generation Project be taken from the following sources:

1. Operating Reserve Account
2. Economic Development Fund
3. Capital Improvement Fund

This order was chosen because the Operating Account earns the least interest and the Capital Improvement Fund earns the highest rate. Based on a project capital budget of \$1,735,000 and our anticipated fund balances and needs it is recommended that project funds be sourced as follows. See attached sheet for details.

Operating Reserve Account	\$800,000
Economic Development Fund	\$300,000
Capital Improvement Fund	\$635,000

It is recommended that the Commission **Vote:**

1. **To Authorize CMEEC to transfer \$300,000 from the TTD Economic Development Fund to our Operating Reserve Account at Patriot Bank.**
2. **To authorize the Chairman to send a letter to Trust Co. of Connecticut authorizing transfer of \$635,000 to our Operating Reserve Account at Patriot Bank.**
3. **To adopt the above funding schedule and authorize the payment of expenditures of up to \$1,735,000 from the Operating Account, which is in turn funded from the Operating Reserve Account, for the Norden Generation Project.**

Beyond the need to provide funds for this important project we must provide for the systematic replacement of these funds whose use has been restricted by the Commission for needed future plant additions. It is equally important, to the extent that the profits from this project are used to mitigate or postpone electric price increases, that a smooth financial transition is made toward the end of this project so that our customers do not face rate shock.

In the matter of funds replacement, Our project pro-forma shows a repayment schedule at 3% interest with interest payments being made immediately after funds disbursement and principal payments being made beginning one month after commercial operation. It is recommended that payments, including interest, be made first into the Trust Co. of Connecticut account to cover both the funds withdrawn from the Trust Co. and the Patriot Operating Reserve. This is because the Trust Co. account yields greater interest and the balance remaining in the Patriot Operating Reserve is adequate for normal operations (provided our operating budget is balanced.) When the Trust Co. account has been replenished, the balance of the repayments will go to the Economic Development Account at CMEEC.

We plan to set a depreciation schedule that will match the four-year initial term of the CMEEC/ISONE contract. If we are fortunate enough to have a fifth project year or can profitably retain the generators, then additional net income may accrue to the District.

Because of the uncertainty in future power costs and other system needs the exact nature of the transition from the period with project income to the time beyond is uncertain and will depend in large part on the philosophy adopted by the Commission and the needs of our customers. For example, we could use project profits to fully fund the Rate Stabilization Fund. Thereafter our power costs to CMEEC would be lower. These are important decisions that require more information and that do not have to be made immediately.

TTD Source of Capital Funds for Norden Generation Project

See memo of 3/21/04 Funds for Norden Generation Project

Fund Name	Fund Location	Current Fund Balance		Minimum Balance Needed		Balance Available For Project	Recommended Use/Transfer	Balance After Recommended Use/Transfer	Principle Repayment
Operating Reserve Account	Patriot Bank	\$ 1,335,606	1	\$ 500,000	4	\$ 835,606	\$ 800,000	\$ 535,606	
Economic Development Fund	CMEEC	\$ 323,365	2	\$0	4	\$ 323,365	\$ 300,000	\$ 23,365	\$ 300,000
Capital Improvement Fund	Trust Co. Conn.	\$ 2,408,261	3	\$0	4	\$ 2,408,261	\$ 635,000	\$ 1,773,261	\$ 1,435,000
Total Funds		\$ 4,067,232		\$ 500,000		\$ 3,567,232	\$ 1,735,000	\$ 2,332,232	\$ 1,735,000

Notes:

1. May 30, 2004
2. April 30, 2004
3. March 31, 2004
4. Funds to be replaced

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G. E. Leary

Date: June 21, 2004 Rev. 6/21/04

Subject: 2004 – 2005 Financial Projection

BACKGROUND - In memos dated March 29, 2004 and April 26, 2004 the projected FY '05 operating results and the ways to improve our profitability were discussed – copies attached. The projection for 2005 forecasted a bottom line that was \$442,149 below the target 5% profit. This was based on a projected shortfall in the payments into the Rate Stabilization Fund of \$127,578. The April 26th memo recommended that no action be taken on the Rate Stabilization Fund at this time.

It was suggested that a combination of expense reductions and revenue increases be considered to achieve the target profitability. At the Commission meeting of April 26, 2004 a three-mil increase in the Fuel Adjustment Charge was voted. The charge increased from 5 mils to 8 mils effective May 1, 2004. This change was projected to increase revenues by \$191,000 per year.

UPDATE – Power supply is our largest expense with many variables. For example, election year politics could serve to reduce fuel prices over the next several months. Also, the FERC decision to postpone the start of LICAP (locational installed capacity charges) for the next year will save on power costs. However, if we continue to make no change in the formula for the Rate Stabilization Fund, these cost changes will not flow to our bottom line.

We now have a clearer picture on the revenue from our Load Reduction and Generation projects. Based on a start date for the generation project of September 1st and updates on other figures the following represents our status today. The figure shown for fuel adjustment revenue is lower than originally projected to reflect that some sales, such as

contract lighting and company use do not have a fuel component. No figures are shown for cost reductions since the method to achieve these savings have not yet been identified.

Expense Reductions Sample Scenario Status June 18, 2004

Office \$	20,000
Distribution \$	15,000
Meter \$	8,000

Revenue

Base Rates \$	-		
Fuel Adjustment \$	191,000	\$	183,000
Load Reduction Project \$	15,000	\$	10,000
Generation Project \$	200,000	\$	289,150
<hr/>			
Total \$	449,000	\$	482,150
 Target \$ \$	 442,149	 \$	 442,149

At this point there are two concerns. First, projected profit is below the target 5%. Second, we are dependent on short-term projects for our profitability. However, we do have time to address these issues and adopt long-term financial strategies when our costs are more clearly known.

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G. E. Leary

Date: March 29, 2004

Subject: Revenue requirements

A projection of net income for 2003-04 and 2004-05 is attached. Based on this projection, an increase in net income is necessary to reach the statutorily required five percent of plant cost. It is, therefore, recommended that the Power Cost Adjustment be increased by seven mills from five mills per KWH to 12 mills per KWH. This represents a price increase of seven percent overall (6.6% residential) or \$3.50 per month to a typical customer using 500 KWH per month. The change will increase revenue by \$445,000 per year.

1. Most Connecticut municipal electric departments do not make a 5% profit.
2. We have not increased our price in many years.
3. Because the proposed change is to the Power Cost Adjustment, no advertising or special process is necessary. This adjustment can, under DPUC rules, be chanced as often as once per month. However, good practice is to make these changes no more often than annually unless a major event requires faster response.
4. Our Rate Stabilization Fund is expected to be gaining in the second half of 04-05. Actual power costs will depend on actions of the FERC, mainly on locational marginal pricing, which are unknown at this time.
5. The contribution of emergency generation to our profit is not known at this time.

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G. E. Leary

Date: April 26, 2004

Subject: Revenue Requirements II

In order to balance the budget for 2005 and bring our profit into compliance with the required five percent there are three basic areas to consider.

1. Expense reductions
2. Rate Stabilization Fund
3. Increase revenue through base rates, the "Fuel Adjustment Clause" or secure other sources of revenue.

Expense Reductions: The Commission has concentrated on expenses for a long period and has succeeded in balancing past budgets without increasing the cost of electricity. For example, the District Budget, while not an operating expense, has been substantially reduced. The opportunity, therefore, to further reduce operating expenses is not great. In fact, we remain in a "catch up" mode with the need to complete two audits in 2004 (02-03 & 03-04). This may be offset somewhat by the opportunity to reduce the unit cost of these audits. In any event, the Commission may want to set a target for expense reductions.

Rate Stabilization Fund: This fund has two purposes. First, the fund is needed to pay-off or defease our share of CMEEC debt when needed in order to maintain our competitive position. CMEEC is making regular payments on this debt, which, under present conditions, will extinguish the debt in 2017. Second, the fund is intended to smooth the sharp variations in power cost due to seasonal changes and variables in the power markets.

At the present time the strategy that was adopted for this fund should be reviewed since the expected level of competition at the retail level is not what was first anticipated. CMEEC plans to provide an analysis, for our consideration, on the level of the Rate

Stabilization Fund over time. A large variable in this analysis is the as yet unknown magnitude and timing of the so-called Locational Installed Capacity charge (ICAP).

Pending the adoption of a more definitive strategy, it is reasonable to make no change in the amount paid into this fund at this time. Current projections show a net outflow from this fund of \$128,000 in FY 04-05. Interest earnings on the fund balance will offset \$73,000 of this amount.

New Revenue: There are several possible sources of additional revenue for the coming year. They include:

1. Increased sales
2. Base rate increase
3. Fuel adjustment increase
4. Load reduction project
5. Generation project

In the short run there are no substantial increased sales forecast. The highly developed nature of our service area is a major limitation on new load.

Because of the timing and cost of increasing base rates, it is not recommended to pursue this option at this time. When base rates are to be changed, there are rate design issues that should be considered.

Since we are under collecting on our Fuel Adjustment Clause, this is an obvious area to utilize to increase revenue. It is also equally available to reduce revenue in the future if costs decline.

The load reduction project is in the final contract stage and may be relied on for income of about \$18,000 per year for the next four or five years.

The Generation project has the potential to produce substantial revenues for the next four or five years but is several weeks from the final contract stage. Further, if we budget these revenues into our forecast we should keep in mind the relatively short-term nature of these projects.

Summary: When making a decision on the course to be taken in balancing next year's budget, some combination of the above measures would be prudent. The following table summarizes the revenue and expense balancing measures.

Expenses	Sample Scenario \$	Commission Decision \$
Office	20,000	
Distribution	15,000	
Meter	8,000	
Rate Stabilization Fund	127,000 not added	
Revenue		
Base Rates	0	
Fuel adjustment	+0.003 = 191,000	
Load Reduction Project	15,000	
Generation Project	200,000	
Total	449,000	

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G. E. Leary

Date: July 1, 2004

Subject: Cost of 2001 Audit

A meeting was held on June 30th with Craig Kanzel and Pat LaMarco of McGladrey & Pullen and D. Brown and G. Leary. The extra charges billed for the recently completed audits were discussed in detail. It was determined that the vast majority of the extra cost related to the 2001 audit. Some of the issues were as follows:

- There were new audit adjustments for year-end accruals that had to be made.
- The pension fund had to be audited for the first time. This was not a requirement when the engagement was signed in 2001. This resulted in a great deal of extra work for both staff and auditors.
- There were issues resulting from accounts receivable reconciliation that needed unanticipated work.
- The closing entries from 2000 were not readily available and had to be reconstructed.

Based on the information from this meeting and the fact that they are absorbing half of the additional cost, I recommend that the commission vote to pay McGladrey & Pullen \$4500 for extra work on the 2001 audit.

CC: Ronald Scofield
Kim Snow

Memorandum

Third Taxing District

Electric Department

To: Commission

From: G. E. Leary

Date: June 30, 2004

Subject: Computer training

Authorization is requested to purchase six days of computer training at a cost of \$1325. The training will be in QuickBooks, Excel and Word. The exact level and courses are not yet determined. Based on the results of this training additional classes may be requested.

Potential areas of training are as follows:

Person	Word	Excel	QuickBooks
Ron	X	X	
Ana		X	
Rachael	X	X	
Tricia			X

It is requested that the Commission **vote to authorize the expenditure of \$1325 for computer training.**